HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Gatineau[1]

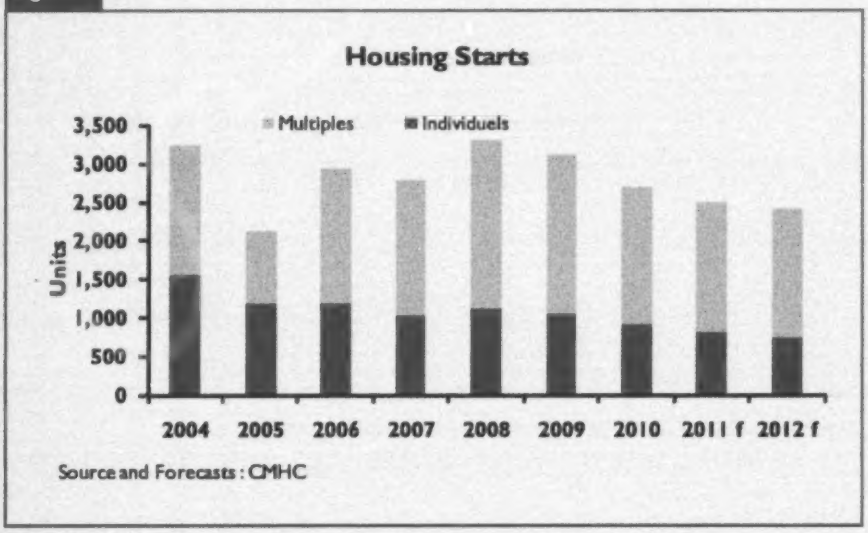
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2011

Decline expected on the residential market in the Gatineau area

Already in 2010, the housing market on the Quebec side of the Ottawa-Gatineau census metropolitan area (CMA) was showing signs of a slowdown. This is expected to continue into 2011 and 2012, with housing starts and existing home sales declining. According to the latest forecasts released by Canada Mortgage and Housing Corporation (CMHC), residential construction is expected to dip by 7 per cent to 2,500 units in 2011 and then by 4 per cent to 2,400 units in 2012. A similar drop is expected on the resale market

Figure 1



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[1] Quebec part of Ottawa-Gatineau CMA

in 2011 (-6 per cent). As a result, MLS® transactions will fall to 4,000 this year but will then remain stable in 2012. Even though net migration will remain positive in the area, the lack of buyers and poor job prospects will weigh down on activity over the next two years.

Cyclical and economic causes

The current and anticipated declines on the residential market in 2011 are due, in part, to the end of the home buying catch-up and move-up movement observed on many markets in 2009 and 2010. In fact, many households wanted to take advantage of the particularly low mortgage rates by moving up their house purchases, which created a pullback in housing demand in 2011. Changes in general financing conditions also contributed to the shift of the housing demand in time.

In addition to these factors, the job market in the Gatineau area has been sluggish for a year. While employment in Quebec overall has improved and exceeded pre-recession levels, the job market in the Gatineau area still lags behind the record set in 2008. According to Statistics Canada, Gatineau had 168,800 workers on average in 2010, down from 170,200 in 2008. The local job market is picking up more slowly because it is less diversified than, and different from, the Quebec market overall. The public administration sector—a driving force in the area, accounting for 29 per cent of all jobs—started shedding jobs in the second half of the year. As well, employment in the other sectors is at a standstill.

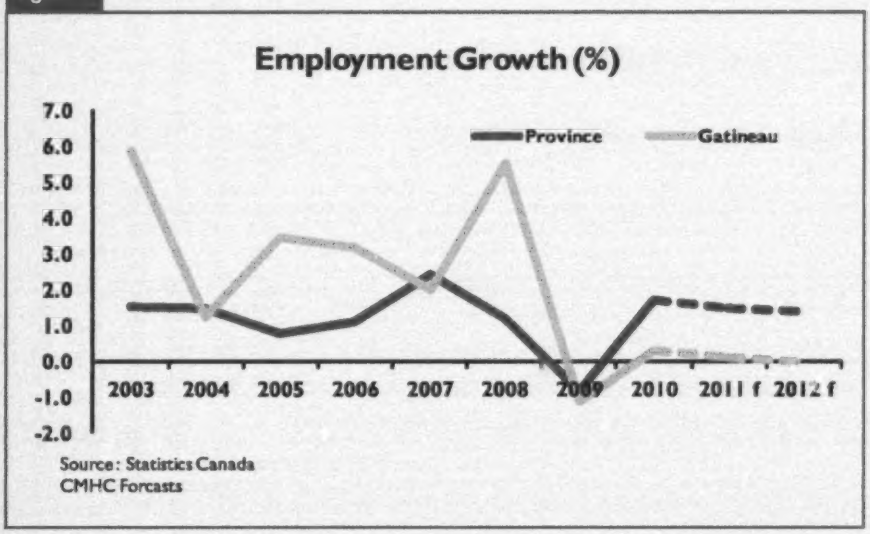
For 2011 and 2012, the job market outlook in Gatineau remains lacklustre, even though the gross domestic product (GDP) is expected to grow in the greater Ottawa-Gatineau area. This is because the number of jobs in the public administration sector will not increase in 2011 and 2012. The decline will be limited, however, by the many upcoming retirements—about 3.3 per cent of public service employees annually—will help contain the number of unemployed persons in the area. As a result, we are forecasting a stagnant job market in 2011 and a slight decline in 2012 (-1 per cent).

Migration to support household formation

Although the job market will be facing some challenges, the residential market will be buoyed by a population increase and migration in particular. The net migration figures for the area have been rather enviable since the early 2000s, and the latest data available from Statistics Canada show no exception. The difference between those arriving and those leaving was +4,100 in 2009/2010, compared to an annual average of +2,800 over the past five years. In addition to this positive net migration, the latest results indicate that both in-migrants and out-migrants increased, meaning that more dwellings and properties changed hands on the market.

The positive migration flows, though, should wane in 2011 and 2012. Job market conditions and the Government of Quebec's new immigration targets will affect net migration in the area. In the short term, the Gatineau area will continue to come out ahead in international, intraprovincial and interprovincial migration, particularly thanks to its exchanges with Ontario, which shares its border. In this regard, Gatineau could be favoured over Ottawa by households looking for more affordable housing and less costly social services, such as daycare, post-secondary education, and so on. In the final analysis, it is expected that the housing market will benefit from gains of 3,600 people in 2011 and 3,000 the following year. While lower than last year, this level is still high compared to previous years.

Figure 2



Source: Statistics Canada
CMHC Forcasts

In addition to migration, natural growth and, more particularly, the aging population are other factors that will sustain the residential market in the area. These factors will support household formation, which will bring about new housing needs in the years to come.

Mortgage Rates

On April 12th, the Bank of Canada announced that it was leaving the Target for the Overnight Rate unchanged at 1.0 per cent. The last increase in the overnight rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. The Bank of Canada is expected to resume raising the overnight rate in the fourth quarter of 2011. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat in 2011 before increasing moderately in 2012. For 2011, the one-year posted mortgage rate is assumed to be in the 3.1 to 3.5 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.1 to 5.6 per cent range. For 2012, the one-year posted mortgage rate is assumed to be in the 3.4 to 4.3 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2 to 6.3 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Slight decline in resales in 2011

In spite of the less favourable conditions that prevailed in 2008-2009, activity on the resale market has remained relatively stable over the past decade. According to data from the QFREB, from 2002 to 2010, MLS® sales levels varied between 4,059 and 4,335 transactions each year, except for 2007, when the number climbed to 4,603. In 2010, there were 4,241 MLS® sales, down by 2 per cent from the preceding year, but still near the average for the past nine years (4,230).

For 2011 and 2012, we are predicting some 4,000 MLS® sales, slightly below the average for the past decade. As mentioned previously, the decline in sales in 2011 will be attributable not only to the less favourable job market outlook in the area. On the flip side, the number of properties for sale will be sustained by the ever-growing housing stock in the area, which will mean more choice for buyers and relatively stable sales in 2012.

For the last few years, we have been seeing more and more existing properties sold directly by owners. This phenomenon has grown in several CMAs across the province, but Gatineau has seen the most notable increase in recent years.

In 2010, the average MLS® price on the residential market rose by more than 6 per cent. In the first quarter of this year, the growth continued, with a hike of 10 per cent over the same period last year. Although demand weakened in recent months, the more limited supply supported price increases. In fact, the current ratio between housing supply and demand suggests that the market will remain favourable to sellers in 2011 but will be trending toward a balance, a situation that could be achieved in 2012. The market is in a balanced range when there are 8 to 10 sellers for every buyer. In theory, this balanced situation leads to an increase in home prices at a rate comparable to the rise in the consumer price index. However, given the current market conditions, the hikes may be greater than the inflation rate. This is especially the case for single-family homes in the lower price ranges. At the time of writing, the seller-to-buyer ratio was still below 5 to 1 for single-family homes priced at under $250,000, while, in the upper-range market ($300,000 or more), this ratio was close to 10 to 1.

The average price of existing homes sold on the Gatineau market was $218,646 in 2010. This average is expected to reach $229,000 in 2011 and $234,000 in 2012, for gains of 4.7 per cent and 2.2 per cent, respectively.

Housing starts to dip in 2011 and 2012

As the resale market is not expected to ease significantly, the less robust economic conditions will be the cause of the decrease in housing starts on the Gatineau market over the next two years. In fact, the small volume of homeowner housing construction in 2011 will lead to a 7-per-cent drop year over year. Housing starts will then continue to decline, with a decrease of 4 per cent forecast for 2012.

The anticipated decline in residential construction over the next two years will be mainly attributable to the single-detached housing segment. The less favourable employment outlook in the area, especially in the higher-paying economic sectors, will hinder these generally more expensive dwellings. The scarcity of lots will exacerbate

the situation by putting upward pressure on the final prices of new homes and therefore limit demand. Finally, the intensification targets pursued by the City of Gatineau will favour the construction of multiple-unit housing over single-detached homes. The project to revitalize downtown Gatineau, which includes incentives for all residential projects of three or more storeys, is totally in line with this trend. For these reasons, we believe that 800 single-detached homes will be started in 2011, down nearly 100 units from 2010. In 2012, a further decrease of 50 units is expected, such that starts of this type should reach about 750 units.

A decrease in multiple-family housing construction is also expected. In fact, after a total of 1,777 units recorded in 2010, starts should dip to 1,700 units in 2011 and then to 1,650 units in 2012. This decline will not impact all multi-unit housing types, however. The price increases recorded over the last decade have encouraged builders to offer more semi-detached and row houses. Scarce on the existing home market and more affordable than single-detached houses, these dwellings have seen their numbers steadily edge up in recent years. However, such starts could register a first decline in 2011, on account of the less favourable economic outlook and the fact that many home purchases were moved up in 2010 by consumers wishing to take advantage of the low mortgage rates.

Apartment construction is expected to rise in 2011 and stabilize in 2012. The reduced number of condominium apartment starts in 2010 and the fact that a few major projects are expected to get under way in downtown Hull and in Aylmer suggest that this market segment will show a gain at the end of this year.

The same holds true for the rental apartment market. More than 270 social housing units are expected to be built this year, compared to 36 in 2010. Already this year, 130 units for low-income seniors were started in February. Similarly, the construction of private rental units will rise in 2011, albeit at a slower pace. Migration is steady, and the latest vacancy rate data reveal a relatively tight market in the Gatineau metropolitan area, which could prompt developers to show more interest in this segment. The slower movement to homeownership could also favour the construction of rental units in 2011 and 2012.

On the geographic front, the Aylmer sector will see the most construction in 2011 and 2012, thanks to the many lots that will be developed there. Construction in the Hull sector, which is limited by the scarcity of available lots, should come back to life. At the same time, activity in the eastern sectors of the metropolitan area should be sluggish, given the smaller pool of first-time buyers seeking more affordable housing.

Vacancy rate to remain low in 2011

After rising slightly for two years, the rental housing vacancy rate should stabilize in 2011. From 1.9 per cent in October 2008, this rate climbed to 2.5 per cent in 2010 but will level off in 2011 before going up again in 2012, to 2.8 per cent. The slower movement to homeownership will halt the easing of the rental market observed for the past two years, while weak job prospects, combined with lower positive net migration, will put upward pressure on the vacancy rate in 2012. The relatively few vacancies will affect the increase in rents in 2011. The average monthly rent should hit $725 this year and $740 in 2012.

In the retirement rental market segment, the vacancy rate (estimated at 21 per cent) should fall in 2011 and 2012, as a result of a stable supply of units—no new privately initiated construction is planned—and an increase in the population aged 75 years or older in the area. The vacancy rate in this segment could therefore reach about 16 per cent in 2012. Lastly, the addition of new social housing units for seniors should not affect existing private residences, because they cater to different client groups.

Forecast Summary
Gatineau CMA
Spring 2011

	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market[1]							
MLS® Sales	4,193	4,335	4,238	4,000	-5.6	4,000	0.0
MLS® Active Listings	2,200	2,181	1,825	2,200	20.5	2,300	4.5
MLS® Average Price ($)	193,911	206,005	218,620	229,000	4.7	234,000	2.2
New Home Market							
Starts:							
Single-Detached	1,120	1,056	910	800	-12.1	750	-6.3
Multiples	2,184	2,060	1,777	1,700	-4.3	1,650	-2.9
Starts - Total	3,304	3,116	2,687	2,500	-7.0	2,400	-4.0
Average Price ($):							
Single-Detached	243,887	261,948	310,479	315,000	1.5	323,000	2.5
Semi-Detached	171,489	190,966	206,333	215,000	4.2	223,000	3.7
New Housing Price Index (% chg.) (Ottawa-Gatineau)	3.7	1.5	4.0	3.5	-	4.0	-
Rental Market[2]							
October Vacancy Rate (%)	1.9	2.2	2.5	2.5	-	2.8	-
Two-bedroom Average Rent (October) ($)	677	690	711	725	-	740	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.23	-	3.76	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.45	-	5.94	-
Annual Employment Level	170,200	168,300	168,800	169,000	0.1	169,000	0.0
Employment Growth (%)	5.5	-1.1	0.3	0.1	-	0.0	-
Unemployment rate (%)	4.8	5.9	6.6	6.8	-	7.0	-
Net Migration	2,679	3,042	4,133	3,600	-12.9	3,000	-16.7

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

[1] Source: QFREB by Centris®

[2] Privately initiated rental apartment structures of three units and over

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), QFREB by Centris®, CMHC Forecast (2011-2012)

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